

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE SANDY)
VALLEY WATER DISTRICT) CASE NO. 9549

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for Sandy Valley Water District ("Sandy Valley") attached hereto as Appendix A shall be included as a part of the record in this proceeding.

2. Sandy Valley shall have 10 days from the date of this Order to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 7th day of July, 1986.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Secretary

Staff Audit Report on
Sandy Valley Water District

PREFACE

On March 31, 1986, Sandy Valley Water District ("Sandy Valley") filed its application seeking an increase in its rates for water service. The proposed rates would generate \$329,520 on an annual basis.

As part of its endeavor to shorten and simplify the regulatory process for small utilities the Commission chose to perform a financial audit, limited in scope, on the operations of Sandy Valley for the 12-month test period ending September 30, 1985. The objective of the Commission was to substantially reduce the need for written data requests, decrease the time necessary to examine the application and thereby decrease the expense to the utility. Joan H. Carroll, Division of Rates and Tariffs of the Commission, performed the audit on May 19 and 20, 1986, at the offices of Sandy Valley in Betsy Layne, Kentucky.

SCOPE

The scope of the audit was limited to obtaining information to determine whether the operating revenues and expenses as reported for the test period in this case were representative of normal operations. Certain rate-making considerations have not been addressed as part of this audit. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

FINDINGS

General Observation

Sandy Valley reported its revenues on an accrual basis and reported its expenses on a cash basis. In order to properly match revenues and expenses, the Commission requires the accrual basis of accounting applied on a consistent basis. The staff advises Sandy Valley to apply the accrual basis of accounting to appropriately reflect balances in its accounts and match revenues and expenses.

Although Sandy Valley has made a commendable effort to classify its expenses, it should more closely adhere to the Uniform System of Accounts ("USoA") as prescribed for water utilities in classifying its accounts.

Transmission and Distribution Expenses

Sandy Valley reported transmission and distribution expenses of \$9,691 for the test period. Of this amount, \$5,541 was for capital items which were inappropriately recorded as operating expenses. These items have been set out in Appendix B of this report for specific identification. Therefore, transmission and distribution expenses has been reduced to \$4,150.

Depreciation Expense

Sandy Valley reported test year depreciation expense of \$37,015. Upon the capitalization of the \$5,541 recorded in the transmission and distribution expense account, depreciation expense has been adjusted. Utilizing a 10-year life, with a full year of depreciation expense taken in the year purchased,

depreciation expense has been increased to \$37,569 for the test year.

Legal, Accounting and Engineering Expenses

Sandy Valley reported test period legal, accounting, and engineering expenses of \$11,547. Upon examination of the journal, it was determined that \$3,747 was for rate case expenses incurred as part of its last rate case proceeding. Pursuant to the USOA, expenses associated with the preparation of a case before the Commission should be charged to a miscellaneous deferred debit account and amortized over three years in the regulatory commission expense account. Therefore, legal, accounting, and engineering expenses have been reduced to \$7,800.

Regulatory Commission Expense

Sandy Valley reported test year regulatory commission expense at \$283. As previously mentioned \$3,747 was incurred by Sandy Valley as part of its last rate case. These rates were implemented in December 1984. Therefore, 10 months of the amortization should be reflected on the books of Sandy Valley for the test year. Regulatory commission expense has therefore been increased by \$1,041 for the test year, leaving a balance in deferred debits of \$2,706 to be amortized in periods following the test year. Regulatory commission expense has therefore been increased to \$1,324.

SUMMARY

The following is a summary of the effect of these adjustments on the test year income statement of Sandy Valley:

Staff Audit Report
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July 1, 1986

<u>Account Name</u>	<u>Test-Year Reported</u>	<u>Inc. <Dec.> Staff Adjustments</u>	<u>Test-Year Adjusted</u>
<u>Revenues</u>			
Metered Sales	\$261,539		\$261,539
Fire Protection	3,600		3,600
Miscellaneous	85		85
Total Revenue	\$265,224		\$265,224
<u>Operating Expenses</u>			
Water Purchased	\$173,507		\$173,507
Transmission & Distribution	9,691	<\$5,541>	4,150
Depreciation	37,015	554	37,569
Administrative & General Salaries	40,679		40,679
Legal, Accounting & Engineering	11,547	<3,747>	7,800
Office Supplies & Postage	6,193		6,193
Property Insurance & Bonding	4,279		4,279
Inspt. Equipment	1,098		1,098
Meter Reading Labor	5,770		5,770
Rent	3,600		3,600
Telephone & Utilities	1,198		1,198
Regulatory Commission	283	1,041	1,324
Commissioner	1,770		1,770
Advertising	11		11
Total Operating Expense	\$296,641	< 7,693>	\$288,948
Net Operating Income <Loss>	<\$31,417>	<\$7,693>	<\$23,724>

Respectfully submitted,

John H. Carroll
John H. Carroll
Financial Analyst, Sr.

APPENDIX B

<u>Invoice Date</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
10/22/84	Water Works Supply	15-F-1000 Corpstop	\$ 211.05
10/22/84	Water Works Supply	15-S70-404 Ford Saddle for PVC	171.90
10/22/84	Water Works Supply	Pressure recorder	225.00
10/22/84	Water Works Supply	15-S70-403 Ford Saddle for PVC	171.90
10/22/84	Water Works Supply	60-5/8 x 3/4 Rockwell meter R/US gals.	1,980.00
10/22/84	Water Works Supply	6-VH 172-7W Copper setteer PJ	169.62
7/25/85	Utility Pipe	35-DP Connections H-14222	189.00
7/11/85	Mid States Meter		102.99
5/10/85	David Blackburn	Contract Labor	1,335.00
2/28/85	Water Works	6-3/4" Wilkins PRV w/sealedcage	182.56
1/20/85	Adams Corp.	Crushed Stone ¹	420.00
		Miscellaneous ¹	381.55
	Total		<u>\$ 5,540.57</u>

¹ Items under \$100 (available upon request).